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Zimbabwe: The Economy Under Black Majority Rule

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An Intelligence Assessment

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February 1982

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Zimbabwe: The Economy Under Black Majority Rule [redacted]

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An Intelligence Assessment

Information available as of 20 January 1982 has been used in the preparation of this report.

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The author of this paper is [redacted] Office of African and Latin American Analysis. Comments and queries are welcome and may be directed to the Chief, Skills Staff, ALA, [redacted]

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This report has been coordinated with the Directorate of Operations, the National Intelligence Officer for Africa [redacted]

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Zimbabwe: The Economy Under Black Majority Rule

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Key Judgments

Both the economic recovery and the spirit of reconciliation that characterized Zimbabwe after its achievement of independence in 1980 show signs of weakening. After two years of banner growth, internal and external factors portend average expansion of only 3 to 4 percent in the next two to three years; this will hamper the creation of badly needed employment opportunities. Domestically, Salisbury must meet black demands for sharply improved living standards. At the same time, it must keep the country's basically capitalist economy moving despite recurrent transport and skilled-labor constraints. Externally, the lagging recovery in the West's demand for Zimbabwe's key exports, and South Africa's tendency periodically to aggravate trade and transport problems, will directly affect economic development.

Above all, the need to show progress in meeting the basic needs of black Zimbabweans will force a limited accommodation with key domestic economic interest groups and the international financial and business community. Prime Minister Mugabe's determination to demonstrate his revolutionary credentials, however, augurs continued friction between the government and these groups. Increasingly sensitive to criticism from his opponents, Mugabe will be loath to appear too conciliatory. His posturing will add to the reluctance of the business community to expand enough to create needed jobs.

Over the long haul, the economy has the potential to grow faster than the economies of most other developing countries, perhaps as much as 6 to 8 percent a year. A financially conservative government will make Zimbabwe attractive to foreign donors, bankers, and investors alike. Moreover, the local business and farm communities and foreign investors will probably remain tolerant and supportive if the government does not veer to the left. In coming years, Mugabe will have the benefit of a growing number of educated and trained blacks making positive contributions to the economy. Before the national elections to be held in 1985, Mugabe has time to devise a strategy to spur development and advance peaceful social change. His effective use of that time will depend heavily on the kinds of pressures he senses from his political allies.

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Zimbabwe's stability is important to US interests in southern Africa, both to maintain and enhance Western access to the entire region, and to deny the Soviet Union another opportunity for adventurism. Mugabe places a high priority on maintaining his Western ties. The tide could turn, however, if Mugabe is perceived at home as not doing enough to meet black demands, or if he becomes frustrated with the slow pace of "the revolution." Either development would be adverse for domestic and foreign business and would increase the likelihood of heightened regional instability.

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Zimbabwe: The Economy Under Black Majority Rule [redacted] 25X1

Introduction

The Mugabe government inherited a country with resources of a character found in few other LDCs. Zimbabwe boasts vast mineral wealth, a relatively diversified industrial base, a healthy agricultural sector, and a substantial pool of skilled farmers and technicians. Moreover, Zimbabwe's transport and energy bases are well developed, which is rare in Sub-Saharan Africa. The groundwork for an efficient transportation system—road and rail—is in place and needs only to be upgraded and extended into the rural areas. Per capita oil consumption is lower than in many other middle-income LDCs, mainly because Zimbabwe depends on hydroelectric power supplemented by coal-powered thermal generators to meet electricity demand. [redacted]

Even with this solid base, Zimbabwe has many problems common to other LDCs. The economy is divided between a sophisticated modern sector—manufacturing, mining, commercial agriculture, and a wide variety of services comprise over 95 percent of the country's total output—and the basically undeveloped rural sector that includes the Tribal Trust Lands.[1] With this division has evolved a sharp divergence in living standards that resembles conditions in South Africa. About 50 percent of black Zimbabweans live in the Tribal Trust Lands, where they are engaged mainly in subsistence agriculture that contributes less than the remaining 5 percent of GDP. [redacted]

Population and urbanization pressures are mounting rapidly in Zimbabwe. Despite Zimbabwe's low population density, the population growth rate—an average 3.3 percent per year—is higher than the growth rate of the subcontinent and the growth rates of other LDCs. The strongest pressures exist in the Tribal Trust Lands, where they are the least supportable. Although city dwellers make up just 23 percent of the total population, slightly below the African average, urbanization is occurring at a brisk 6.6-percent annual rate. This, too, poses problems because the new government is ill equipped even to sustain the Rhodesian white standard of public services; the extension of that standard to the blacks became an important revolutionary goal. [redacted] 25X1

Political pressure for income redistribution is also growing. Black Zimbabweans, whose average real wage is less than 10 percent of white wages, understandably hoped that a black government would bring change and improvement. The slow progress in that direction, however, is rapidly increasing demands for greater advances. [redacted] 25X1 25X1

Against this background, the shift to black majority rule has compounded the growing strains in Zimbabwean society. Whites are worried both about losing their economic clout through the nationalization of their properties and about being replaced by blacks in the work force. Blacks are concerned that land reform is not fulfilling its promises and that inflation is eroding the income of those who are lucky enough to find jobs in the cities. [redacted] 25X1

Meanwhile, Prime Minister Robert Mugabe, as part of his increasingly strident rhetoric, has pledged to make 1982 the first year of Zimbabwe's "national transformation," promising to move in a socialist direction. If he moves too quickly, it will be at the expense of the whites, and will spur an even faster exodus. If he continues to proceed cautiously, he may damage his stature as the country's leader and risk political attacks from the left. [redacted] 25X1 25X1

Mugabe—The Initial Years

Reconciliation. Independence in April 1980 set the stage for a turnaround in what had been a war-wracked economy, but a climate of confidence was needed.[2] The white population considered Mugabe to be the most radical of the nationalist leaders; after his

[1] The Tribal Trust Lands are communal reservations where rural blacks were required to live before independence. [redacted]

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[2] A discussion of the substantial structural changes that took place in the Rhodesian economy over the initial sanctions period and the war years can be found in the appendix. [redacted] 25X1

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Figure 1

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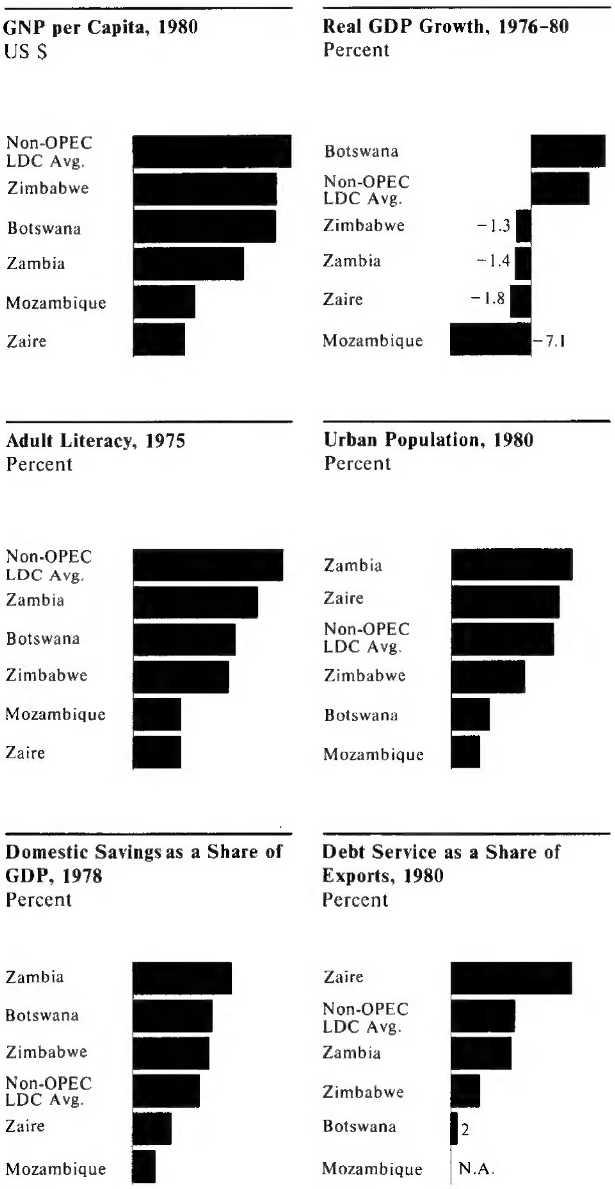
Figure 2

Zimbabwe: Economic Comparisons

Note change in scales



[a] Data are for 1979.

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party's overwhelming election, they fully expected nationalizations and outright property confiscations. Many also feared that the tribally based political differences between the nationalists—especially the Mugabe and Joshua Nkomo factions—would perpetuate instability. 25X1

To the whites' surprise, the self-professed Marxist immediately concentrated on trying to improve security, to reassure the whites and the international business community, and to increase the welfare of black Zimbabweans. Indeed, Mugabe stressed that, while he personally would have preferred a more socialist economic system, he recognized the importance of retaining local and foreign private participation in order to restart the economy. 25X1

To attain his goals, Mugabe adopted a posture of conciliatory pragmatism. To placate white commercial farmers, the government raised producer prices for the most important crops—corn and wheat—and stressed the need to keep commercial agriculture intact despite promises of land reform. Mugabe also reiterated that he had no plans to nationalize local industry, although he emphasized that state participation in key sectors would increase. Moreover, to further mollify the white minority, Mugabe chose two prominent whites to serve as cabinet ministers for business and agriculture. 25X1

The government's commitment to improving the economic well-being of Zimbabwe's blacks was unquestioned. Some important first steps were taken, particularly to meet basic needs:

- All fees for primary education, as well as charges for health care for lower income Zimbabweans, were eliminated.
- Some rents and taxes affecting low-income people were reduced.
- Higher minimum wages were legislated, including 66-percent increases (to $120 per month) in some cases.
- Some 1,400 families were resettled on underutilized land.

Further plans were announced to resettle some 18,000 black families on abandoned or underutilized land over a five-year period 25X1

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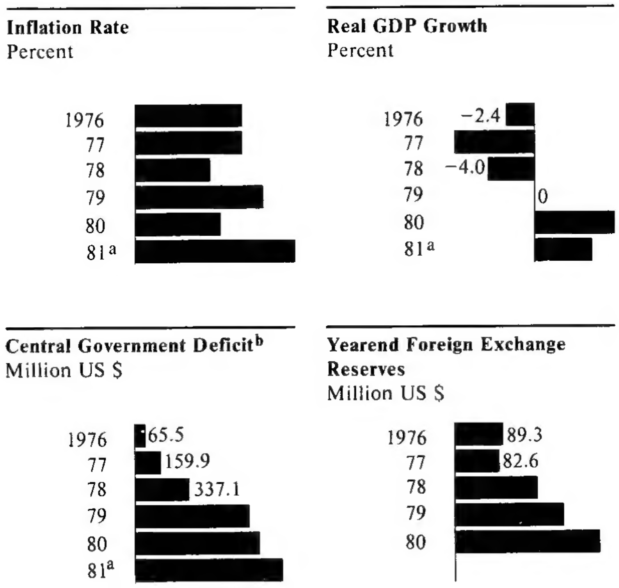
Figure 3

Zimbabwe: Recent Economic Performance

Note change in scales



[a] Estimated.
[b] Fiscal year 1 July-30 June.

[redacted]

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Recovery. The removal of war-related trade sanctions and a demand-induced recovery in the manufacturing and agricultural sectors spurred a solid revival. Higher base metal prices, especially for gold, also initially boosted the economy. Offsetting the drop in metals prices in 1981 was the rise in producer prices that, along with favorable weather, almost doubled corn production; a 1.5-million-ton surplus was produced, compared to 300,000 tons in 1980. As a result of these factors, Zimbabwe showed real GDP growth of at least 7 percent in 1980 and about 5 percent last year, to restore output to the 1976 level. [redacted]

One problem was a slight increase in inflationary pressures. Emerging economic problems and generous wage increases accelerated inflation after mid-1980. Buttressed by free-wheeling import policies, local industry had been able to meet consumer demand without sharp price increases. By mid-1981, however, capacity constraints were beginning to be felt, owing to the continuing exodus of skilled manpower and the reluctance of entrepreneurs to expand their operations despite rising demand. Moreover, higher production costs caused by government-mandated wage increases and new taxes were passed along to consumers. As a result, consumer prices climbed at least 15 percent last year, compared with the 8-percent rise in 1980. [redacted] 25X1

The quick economic recovery severely strained the country's balance of payments, as Zimbabwe embarked on a foreign buying spree that outpaced export performance. Consumer demand for imported goods and the replenishment of wornout and destroyed capital stock pushed nominal imports up by 60 percent in 1980 and probably another 10 percent in 1981. Renewed demand for traditional exports such as tobacco was not enough to offset the jump in merchandise imports and associated service payments. 25X1 Zimbabwe's current account deficit nearly tripled, to over $300 million in 1980 and doubled in 1981. [redacted]

Current account financing posed no problem in 1980, but a widening trade deficit considerably dimmed the outlook for meeting the 1981 deficit. Capital inflows, mainly from Western donors and commercial bankers, handily offset the current deficit during 1980. 25X1 The growth of the deficit demanded new financing mechanisms, particularly in view of the slow response from foreign investors. Anxious to maintain a debt service equivalent to only 9 percent of export earnings, 25X1 Salisbury supplemented modest short-term borrowings by drawing down international reserves to an equivalent of less than two months' import cover. [redacted]

Reform and Its Problems. The Mugabe government's attempts to satisfy black aspirations began increasingly to strain public welfare expenditures as well. Education and health spending soared to over $700 million, or 25 percent of the planned budget last year. 25X1 Partially to cover the rise in social spending, the government enacted a series of progressive tax measures that hit investors and high-income consumers, mostly whites, particularly hard. Salisbury could not dip—as it had in 1980—into domestic capital markets to cover its financing needs without tightening the 25X1 availability of credit for private business. [redacted]

Zimbabwe: Composition of Government Expenditures [a]

Percent
(Except Where Noted)

	1974	1975	1976	1977	1978	1979	1980 [b]	1981 [c]
Total expenditures (million US $)	**710**	**765**	**877**	**1,098**	**1,245**	**1,580**	**2,200**	**2,880**
Allocation	100	100	100	100	100	100	100	100
Civilian	83	81	78	77	72	68	78	83
Education	5	6	6	5	5	10	13	18
Health	5	5	5	4	4	5	6	7
Transport and power	4	5	6	4	5	6	5	7
Pensions, executive salaries, and other fixed expenditures	9	10	10	9	8	9	9	7
Debt amortization	27	22	20	27	21	17	17	17
Others, including subsidies	33	33	31	28	29	21	28	27
Defense	17	19	22	23	28	32	22	17
Budget deficit (million US $)	75	4	65	160	337	712	778	920
Share of GDP	2.3	0.1	1.8	4.4	9.7	17.6	14.1	13.8

[a] Data are for fiscal year, which runs 1 July–30 June.
[b] Estimated.
[c] Projected.

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Zimbabwe: Current Account Trends

Million US $

	1976	1977	1978	1979	1980	1981 [a]
Trade balance	289.4	265.4	304.4	242.9	158.6	−150.0
Exports (f.o.b.)	919.7	898.0	901.9	1,044.9	1,445.6	1,250.0
Imports (f.o.b.)	630.3	632.6	597.5	802.0	1,287.0	1,400.0
Net services	−235.0	−243.4	−231.5	−285.3	−342.2	−360.0
Net transfers	−27.6	−24.3	26.8	−69.4	−138.4	−150.0
Current account balance	26.8	−2.3	46.1	−111.8	−322.0	−660.0
Net change in reserves	19.5	−9.1	34.2	145.7	−128.6	NA

[a] Projected.

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The government's attempts at conciliation were not sufficient to stem white emigration. Most of those who left had no concrete stake in the new state, such as land or business ownership, and were lured to South Africa by familiar living conditions and the lucrative job opportunities advertised by labor-hungry industrialists. Moreover, Salisbury's desire to Africanize the bureaucracy persuaded many white civil servants that they had no future in Zimbabwe. All told, about 30,000 whites, in addition to the 60,000 that fled after the escalation of the civil war, left in the past two years [redacted]

Government efforts to meet heightened black expectations became increasingly unbalanced. Free health care and primary school education and the integration of all public facilities was a boon to blacks, particularly in the urban areas, where these facilities are concentrated. Urban blacks or rural commuters also were the main beneficiaries of rising minimum wages. Improved living standards did not, however, trickle down to the 3.5 million Zimbabweans in the Tribal Trust Lands, which had suffered severe damage to public works and facilities. Little of the $1 billion in official Western aid earmarked for rural development in the past two years was disbursed, because of slow donor followup and local administrative shortcomings. As a result, many schools still operated without adequate structures, books, and personnel, and many technical self-help projects hobbled along only by virtue of such private donors as missionary societies. Even when money was available, a lack of expertise and trained manpower—particularly extension agents and health officers—seriously hampered implementation. [redacted]

Growing Policy Challenges in 1981-82

Trying to meet rising black expectations while maintaining rapid economic growth is beginning to present the Mugabe government with harder policy choices. In making these choices, the government will continue to be inconsistent, trying to accommodate the various economic interest groups while attempting to proceed along more socialist lines. This course portends continuing uncertainty for all groups involved. [redacted]

The pace at which Salisbury institutes its socioeconomic and political policies and the staying power of the business community will be critical in determining the course of the economy in the coming years. The economy must grow about 6 percent annually to keep unemployment, now almost 15 percent, from rising over the foreseeable future. Mugabe's recognition of the importance of nurturing the strong capitalist base around which his country's economy is structured is a positive first step. He needs the cooperation of commercial farmers, industrialists, and mining companies to guarantee tax payments, direct investment, technology transfer, and job creation, and to fulfill his goals of better living standards for blacks [redacted] 25X1

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Any quick moves aimed at meeting growing black expectations through greatly increased land redistribution and social services could be counterproductive. Strained public finances and a sufficiently frightened business community would prevent the kinds of growth-generating investments needed to keep the 15-percent unemployment rate from rising. The task of limiting further unemployment takes on even greater dimensions as the 25,000 men to be demobilized from the national army and the additional thousands of workers expelled from South Africa swell the normal annual increment of 80,000 to the labor force. [redacted] 25X1

The complex burden of coping with the multitude of social and economic problems is prompting a more compromising government stance toward domestic parochial interests, foreign business, and the financial community. Some concessions recently have been made, primarily to calm fears in the white community. One of the new tax measures, designed to eliminate mining depletion allowances and reduce capital expenditures credits, has been delayed until April 1982; it had been slated to be retroactive to April 1981. Health Minister Herbert Ushewokunze, a more radical cabinet minister who was objectionable to the white community, was recently fired. [redacted] 25X1

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The groundwork is being laid to alleviate transport bottlenecks. About 25 technicians recruited from India and Pakistan to help operate and maintain the 25X1

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rail system have already arrived. Sixty new locomotives are on order from the United States and Canada and will start arriving in early 1982. Subministerial-level meetings with Pretoria have resulted in South Africa's agreement to provide 26 locomotives and to help ease the fuel situation. [redacted]

At the same time, the government's increased political posturing in recent months is undermining its more cautious approach on the economic front. The tone of speeches by Mugabe and other leaders, designed to renew revolutionary zeal, deepened concern among blacks and whites alike, as the Prime Minister accused opponents from both races of colluding with South Africa to subvert his government. The arrival in August of about 100 North Korean military advisers also added ammunition for Mugabe's foreign and domestic critics. Perhaps the most disturbing problems have been the increase in accusations of white racism by various ministers, and criticism by the Minister of Justice and Constitutional Affairs of the provision in the constitution which reserved 20 parliamentary seats for whites. [redacted]

Against this background, time for revitalizing the pivotal private sector is growing short. The stepped-up rhetoric and a hardening of racial attitudes can exacerbate labor shortages and government inefficiency. White emigration has risen from a monthly average of 1,400 in 1980 to nearly 1,800 at the beginning of 1982. With transport problems now costing Zimbabwe about $8 million per week in lost foreign exchange, a continuing loss of transport technicians would be especially detrimental. Similarly, the worsening personnel shortages, transport difficulties, worn plant and equipment, and foreign exchange shortages in the manufacturing and mining sectors require faster policy responses. [redacted]

Differences of opinion within the government continue to preclude a well-defined set of rules for foreign investment. Moderates in the government prefer deciding each case separately to forestall setting down an investment code that would set the stage for a major political battle with more radical elements. A likely result of such a debate would be a restrictive code that would require joint ventures with majority local equity ownership and might severely limit profit repatriation. The absence of a clearly defined investment policy, however, will dampen investor enthusiasm almost as much as a restrictive code, with foreign businessmen continuing to "wait and see" before committing themselves. [redacted] 25X1

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The government's decision to take over the mineral marketing function is compounding business uncertainty. Suspicious that the companies are underinvoicing exports and that they want to exert more control over Zimbabwe's resources, the government last June announced plans to set up a state Minerals' Marketing Authority (MMA). Despite protests from the Chamber of Mines, as well as demarches from various governments, Salisbury's plan won easy legislative approval early this year. The MMA will act as the sole marketing agent for all minerals, collect unspecified commissions, and have the authority to limit producers' stockpiles. This legislation is far more sweeping than the minerals firms had expected—they had wanted a board that would track sales but not 25X1 interfere in day-to-day operations. As a result, while it is unlikely that any disinvestment will take place, the firms will reevaluate their expansion plans. [redacted]

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While commodity price rises to producers have somewhat alleviated anxieties among white farmers about Mugabe's intentions, many white farmers remain concerned about possible confiscation of their property. Their fears are not unjustified. To achieve the government's goals of increasing the peasant sector's contribution to total agricultural output and resettling some 250,000 landless families would require drastic changes in the present system of land distribution. [redacted]

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The latest round of government-mandated hikes in the minimum wage threatens to dampen investor enthusiasm even more and risk a slowing of job 25X1 creation across the board. Monthly minimum wages for industrial and commercial workers rose 25 percent, to $150, at the start of 1982, and salaries over $28,000 annually were frozen. Minimum wages for farm and domestic workers increased almost 70 percent, to $70 a month. Higher earnings and the passing of cost increases to consumers will cushion the impact on manufacturers. The mining sector will not be as lucky, however. Some of the 70,000 workers—7 percent of the labor force—stand to lose their jobs if

unprofitable mines, already squeezed by higher taxes and falling earnings, are forced to close. Service and farm workers—30 percent of all workers—are even more vulnerable. Many employers already are considering cuts in household labor or shifts to such labor-saving crops as corn.

Despite these discouraging actions, the government continues to be supported by a cadre in the local business and farm community as well as foreign investors now in place. Many in these groups feel that the recent upsurge in rhetoric will cool and that they have only to wait it out. Although there is a supposed thin line between government intervention and outright nationalizations and confiscations, most within these groups remain confident that the former course is the most they will have to worry about.

Medium-Term Prospects

Even if Mugabe continues to take a middle course on economic policy while talking a revolutionary line, external factors work against Zimbabwe's achieving annual economic growth beyond the 3- to 4-percent range through 1985. Demand by developed countries for Zimbabwe's primary and processed minerals will remain depressed at least through early 1983. Moreover, the drawdown of substantial stockpiles of ferrochrome and chromite, especially in South Africa, will cause local output to lag for six months or so after world demand rebounds. Against this background, depressed mineral sales are unlikely to recover until mid-1983 at the earliest. Sluggish export earnings, in turn, already are dictating cuts in foreign currency allocations to selected industries of as much as 40 percent, and these will begin to take effect fully this year. Continued foreign exchange rationing will severely pinch economic expansion, while inflation and unemployment probably will rise sharply.

Although decisive and consistent economic measures to restore business confidence are not assured, Salisbury's reaction to recent pressures by the International Monetary Fund (IMF) is promising. Mounting foreign payments strains and conservative debt management policies prompted the government to turn to the IMF in late 1981 for $126 million in compensatory financing to cover immediate balance-of-payments needs. Salisbury readily met two of the three IMF criteria by restricting imports and raising domestic interest rates closer to international levels to bolster domestic savings. The Fund also insisted on a $150 million or 5-percent cut in government outlays aimed at consumer subsidies. Although the government has tentatively agreed to reduce subsidies, it is buying time to forestall political opposition.

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Beyond IMF help and the support it would engender from international bankers, the government's ability to carry on its reconstruction and development plans will largely depend on the generosity of Western donors. The Zimbabwe Conference on Reconstruction and Development (ZIMCORD) held in March 1981 yielded pledges of $1.8 billion, mainly from the collective European Community, the United Kingdom, and the United States. Of the ZIMCORD money, $1.1 billion is earmarked for land resettlement and rural development, $300 million each for refugee resettlement and manpower training.

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Mugabe's perceived need both to maintain socialist rhetoric and periodically to backslide on economic pragmatism when political costs become too heavy could, however, negatively affect future donor support. Moreover, the prolonged recession in the industrialized countries could threaten foreign aid. Even making effective use of donor funds will depend on the government's ability to strengthen its managerial and technical base. This will be difficult at a time when skilled workers continue to leave the country and increases in spending for education are limited by budget constraints.

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The land resettlement task will proceed only on a limited scale. In the absence of significant political pressures, the government's determination to minimize disruptions in commercial agriculture dictates the pace at which it will seek to satisfy land-hungry Zimbabweans. More important, even if all arable land were made available, there would not be enough to go around. The large tracts of underutilized land belonging to whites, however, give Salisbury some room to maneuver in satisfying land hunger among blacks without creating disruptions. The plans already under way will resettle about 8 percent of those eligible on land purchased mainly from absentee landlords. Progress, however, has been slow and will continue to be

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limited by the absence of the infrastructure and skills necessary to launch and properly manage even this token effort [redacted]

Problems in bilateral relations with South Africa will be especially nettlesome because Zimbabwe will not be able to reduce substantially its economic dependence on Pretoria any time soon. Transport bottlenecks will continue to plague Zimbabwe, and efforts to refurbish and repair the alternative routes will be hampered by lack of sufficient money, skills, and regional stability. Pretoria will continue to flex its economic muscle to reinforce Zimbabwe's dependence and to keep Mugabe in line [redacted]

Mugabe fully understands the need to maintain economic relations with South Africa. Although he has not personally appealed to the Botha government to help ease Zimbabwe's economic problems, as Pretoria would wish, contacts have been made and meetings have been held on transport and other contentious issues. South Africa has indicated a willingness to negotiate a new preferential trade agreement, even though its terms will be less generous than those of the old treaty with the Smith regime. Arrangements have also been made to reschedule a $42 million loan payment to South Africa, originally due at the end of 1981. Any agreement on these issues will depend, however, on Salisbury's continued willingness not to allow anti–South African insurgents to operate from or through Zimbabwe and on a cooling of Zimbabwean anti–South African rhetoric [redacted]

On the positive side, because national elections will not be held until 1985, Mugabe probably still has political breathing space to take the actions necessary to get the economy on course. By then the prerequisites for rapid growth in Zimbabwe—a rebound in Western demand for its principal exports, solutions to the transport problem, and newly educated and trained blacks to take the place of emigrating whites—is expected to be in place. Should any of these prerequisites fail to evolve before election time, however, the present government might incur heavy costs. Frustrated with rising inflation and a perceived lack of economic progress, Zimbabweans would become more restive and more sympathetic to critics calling for more radical change [redacted]

Implications for the United States

Zimbabwe's stability is important to US interests in southern Africa. Most crucial to these interests is stability that will enhance Western access to the entire region as well as to deny the Soviet Union opportunities for adventurism. A viable black government capable of maintaining its economic legacy will also have an important demonstration effect on Namibia and South Africa. Of lesser importance is continued access to minerals and the relatively small ($200 million) direct US investment [redacted]

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Mugabe is pragmatic enough to realize that maintaining strong Western ties is the only way he can accomplish his government's social goals. Additionally, he distrusts the Soviets because of Moscow's military assistance to Joshua Nkomo during the civil war. Mugabe would prefer to lead his country along the lines of Yugoslav-type socialism, but he fully appreciates that capitalism will provide the means—through the generation of new jobs, foreign exchange creation, and skills training—to improve living standards. Having learned from the mistakes of Mozambique and Angola, he is not likely to allow government relations with the business community to deteriorate seriously [redacted]

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Should Mugabe fail, or be perceived to fail by the population at large or by members of his party, the alternatives could be much more damaging to Western political and economic interests. Radicals within his party who could challenge Mugabe's hold on power would probably be less tolerant of the private business sector and more likely to develop ties with the Soviet Bloc. Just as plausible is the possibility that Mugabe himself will become radicalized—out of frustration or in an attempt to silence his critics—with the same adverse implications for the private sector. In neither case, however, would Salisbury be in a position to deny the West access to mineral supplies because of foreign exchange needs. They probably would, however, be more disposed to allow anti–South African insurgents to operate from within Zimbabwe, which could pave the way for South African–Zimbabwean military confrontation and greater instability in the area [redacted]

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Appendix

Past Economic Problems and Adaptations

Adjustments to Sanctions

In the 1970s, Rhodesia's economy was encumbered, first by international sanctions that followed Salisbury's Unilateral Declaration of Independence (UDI) in 1965, and then by the escalation of guerrilla activity to a full-fledged civil war in the period of 1974-79. Following the first full year of sanctions, the Rhodesian economy performed well under stress for almost a decade. Real GDP growth averaged 6.5 percent annually between 1965 and 1974; below-average economic performance occurred only in drought years. [redacted]

To achieve this pace, the government took a greater role in the economy through a formidable array of organizations and controls.

- Development corporations were set up to provide financing and technical expertise for industrial, mining, and agricultural enterprises.
- Efforts both to find new export markets and to evade sanctions were centralized.
- The Rhodesian Government assumed extensive powers in resource allocation and control of wages and salaries. [redacted]

Import substitution flourished and contributed to the economic resiliency. By 1970, manufacturing had replaced agriculture as the leading nonservice sector, owing to a 50-percent overall growth over the five-year period. As a result, virtually all essential consumer goods and some intermediate and capital equipment needs were supplied domestically, thereby saving Rhodesia valuable foreign exchange. Indeed, import volume did not match or exceed the 1965 level until 1973 and 1974. [redacted]

Rhodesia depended heavily on South Africa to expedite the supply of those imports that could not be produced locally. Essential oil purchases via the pipeline from Mozambique had been effectively cut off after 1965. Only South African exports, Rhodesia's sole oil source until independence in 1979, prevented serious economic disruptions. In addition, UN-mandated sanctions effectively barred Rhodesia from obtaining numerous specialized products. Shortages of imported body kits disrupted automobile assembly, and Rhodesian Airways was unable to purchase new planes. Where the point of origin was easier to conceal, other goods were readily obtainable, however. [redacted] 25X1

On the export side, only agricultural exports suffered badly during the sanctions period. The embargo crippled tobacco sales, Rhodesia's single largest foreign exchange earner. This was because tobacco was too easily traced to the source and could not, therefore, be passed through foreign middlemen to the world market. The sharp decline in tobacco earnings, as well as a need to reduce dependence on imported food, caused the government to encourage growers to switch to corn and wheat production. [redacted] 25X1

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Sanctions mildly hurt chromium, Rhodesia's second-largest export earner. Despite the sharp downturn in output during the late 1960s, the US decision to end its embargo—the Byrd Amendment—and the skirting of trade impediments by other Western countries, allowed production to outstrip presanctions levels by 1972. [redacted] 25X1

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Other nonagricultural exports generally held their own with the help of Portuguese and South African middlemen. Copper and pig iron sales, for instance, were hurt little by sanctions because of new markets in Western Europe and transit that permitted South African bills of lading. The majority of Rhodesia's nondurable manufactures were sold to South Africa and were not affected. [redacted] 25X1 25X1

Following the unilateral declaration of independence, an involuntary boost in domestic investment and South African funds allowed Rhodesia largely to replace traditional sources of capital. With remittances to the United States, the United Kingdom, and

Canadian parent companies prohibited by the Smith government, profits had to be reinvested rather than repatriated. As a result, total domestic investment surged from 13 percent of GDP in 1964 to an annual average of 20 percent during the first half of the 1970s. [redacted]

In addition to the reinvested earnings, some $500-750 million in new foreign investment flowed in, mostly from South Africa. Adherence to the boycott by international bankers and foreign donors made Salisbury almost totally dependent on South Africa for these and other financial flows. Concessional aid and access to Pretoria's private capital markets enabled the Rhodesian Government to finance its small budget deficits. [redacted]

The Civil War Years

Beginning in 1975, Rhodesia was beset by a new round of troubles that wreaked economic havoc. The main factors were an escalation of the protracted civil war and the Zambian and Mozambican closure of their borders with Rhodesia. The ensuing uncertainty and the erosion of the middle class market because of white emigration weakened the investment climate. Moreover, international demand for Rhodesian commodities sagged with the recession in Western markets. The economic downturn that began in 1975 persisted for five years. With the real economic decline averaging 3 percent annually, per capita income had tumbled 24 percent by 1979. [redacted]

Government reactions to the war also had profound implications, as the mounting diversion of resources into defense undercut economic growth. The defense portion of the budget rose from 19 percent in 1975 to a peak of 32 percent in 1979, pushing the overall budget deficit from $4 million in 1975 to over $700 million in 1979. The stimulative effects of rising defense expenditures was more than offset by the reduction in producer and consumer subsidies, the boost in personal income taxes, and the mandatory purchase of war bonds to help cover these deficits. Moreover, the shift of scarce foreign exchange to military-related purchases reduced financial resources for local businessmen, even as the diversion of skilled white manpower from industry and agriculture worsened an already bad labor situation. [redacted] 25X1

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External factors also undermined the embattled economy. Zambia had closed its borders in 1973, thereby depriving Salisbury of transshipping fees, but, by itself, this had only limited adverse impact. Even more serious was the decision in 1976 by the new Machel government in Mozambique to close its borders with Rhodesia. This action forced a rerouting of trade through South Africa that increased Rhodesia's freight payments about 50 percent annually. [redacted] 25X1

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Beyond the internal and regional forces, the deteriorating international economy also took a heavy toll. Demand by developed countries for most of Rhodesia's exports slumped as world oil prices soared. Trade sanctions caused Rhodesia to suffer disproportionately, as buyers switched to more dependable supplies. In addition, largely because of technology changes, Rhodesia was unable to replace the US chrome market lost to it after the 1977 repeal of the Byrd Amendment. [redacted] 25X1

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